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The London Capital Market and Latin American Public Debt, 1860-1930

By 1980 economic historians seemed to have reached some degree of consensus over many of the issues concerning British overseas investment before 1914 in general and the flotation of Latin American government bonds in particular. Research on the level of British capital exports had tended to revise and refine the figures rather than create controversies around them. It had also defined fairly clearly the periods in which investment in government securities had reached a peak: the early 1870s, the late 1880s and the decade preceding the First World War. The City of London was assumed to have dominated lending to Latin American governments before 1914. It was particularly attractive as a source of capital once the defaulted debts of the post-independence period had been settled in the mid-nineteenth century because, of all the major European financial centres, it possessed the most liberal regulations on capital movements. Before 1914 there was never any official supervision of the major issuing houses or the Stock Exchange and no attempt to tie loans to purchases of British goods (Born 1983: 115-116).[1]

The principal debates about British investment in Latin America revolved instead around the relationships between bankers, bondholders, and debtor governments, with a particu-

1 This changed with the outbreak of war in 1914. Thereafter there were long periods when issues of Latin American government securities were regulated either formally or informally. Regulations were fully relaxed only for a few months in 1924 and from early 1926 until mid-1929 (Atkin 1970: 325-334; Moggridge 1971: 115-129).

lar concentration on certain central events in the histories of individual countries: the Grace Contract in Peru, the Baring Crisis in Argentina, the 1898 Funding Loan and later support for coffee valorisation in Brazil, the 1902 Anglo-German intervention in Venezuela. However, except for these issues the subject did not attract a great deal of excitement. Many economic historians were content with a picture of British lending to Latin American governments based on an amalgam of Jenks (1927), Feis (1930), Rippy (1959) and Stone (1968; 1977), without considering in any great depth the problems with the evidence which these historians had presented or indeed the reservations they themselves had expressed about it. Many made the assumption – or rather few explicitly questioned it – that British investors normally purchased and held the bonds issued in London, and that their willingness to do so depended on differentials in yields between foreign loans and domestic bonds and shares. Historians were also generally content to stop in 1914, presumably in the belief that nothing of importance had happened thereafter in the London market, and that the debts incurred before World War I had been quietly liquidated in the course of the twentieth century. There was a tacit understanding that with the outbreak of World War I the dominance of the City of London had ended and that thereafter New York had more or less monopolised Latin American government borrowing. Very few questions were asked about the role played by London financiers in the 1920s.

Some of the research which appeared during the 1980s demonstrated a need for a reappraisal of many of these assumptions. As a result there is now scope for a comprehensive research project on the London capital market and Latin American public debt between 1860 and 1930, using business archives, private papers, and Latin American government publications as well as the financial press (the traditional source), and set within the context both of revisionist writing on British investment in general and of recent writing on Latin American debt crises in the nineteenth and twentieth centuries (see especially Fishlow 1985a; Stallings 1987; Marichal 1989). This chapter does not provide this reassessment, but rather it draws attention to three of the problems raised in the recent literature: estimates of British investment in Latin American public debt, institutional changes, and the motivations of investors. It does not consider other important issues in the recent literature such as the macroeconomic determinants of capital flows and the significance of the major debt crises (1866, 1873, 1890, 1914 and 1930). It raises questions rather than providing answers. Readers may well criticise it as resembling a research proposal rather than a finished paper.[2] However, the aim is to provoke debate.

1. Estimates of British Investment in Latin American Government Bonds

The notorious history of the bonds issued by many of the new republics at the time of independence exemplifies many of the problems involved in quantifying investment. The actual flow of resources to Latin America was very much less than the nominal value of the bonds, because they were sold at a considerable discount, some of the proceeds were retained to meet the early interest payments, and the issuing houses extracted large commissions. The subsequent conversions and settlements, which frequently capitalised arrears of interest, added to the total nominal debt without providing new capital, except indirectly in that continued service of the new bonds opened the way to further issues (Platt 1983; Platt 1984; Bazant 1968; Mathew 1970; Véliz 1977; Marichal 1989). Any estimates of British investment in Latin American public debt in the mid-nineteenth century which are based on adding together figures for new issues of bonds on the London capital market thus have serious limitations. The most detailed estimate, Irving Stone's,

2 I hasten to add that it is *not* a research proposal.

which offers a figure of £ 61.8 million for 1865, greatly overestimates the actual flow of capital to Latin America, since it takes no account of conversion operations, and to a lesser degree the extent of Latin American liabilities to Britain, because Stone's sources do not identify foreign holdings of bonds issued in London (Stone 1968: 319).[3]

Until 1980 there had been little real dispute about the scale of Britain's total capital exports in the late nineteenth century and their geographical distribution, even though economic historians had used several different methods to arrive at them: estimates of invisible earnings and financial flows in Britain's balance of payments; the evidence of investment income from abroad contained in the Inland Revenue returns; and records of new capital issues on the Stock Exchange (Pollard 1985: 490-492). Herbert Feis (1930: 23) had suggested that total British investment in Latin America in 1913 (government bonds and company stocks and debentures) had reached £ 756.6 million, out of a global total of £ 3763.3 million.[4] Later estimates had tended to increase this. J. Fred Rippy (1959: 68), using the statistics published in the *South American Journal*, claimed that British capital in Latin America at the end of 1913 totalled £ 999.2 million, of which £ 316.4 million was in government bonds. Irving Stone (1968: 319) offered a figure of £ 445.5 million for British investment in Latin American government loans in 1913, of a total investment in the region of £ 1177.5 million.[5] However, in the mid-1980s Lance Davis and Robert A. Huttenback reworked the same sources for capital issues on the Stock Exchange and, by taking account of "partial" issues, arrived at a much lower estimate for new issues of government

3 Stone was careful, though, to measure the outstanding principal rather than total new issues. His figures for the British holdings of the Brazilian government's foreign debt, for example, are very close to those calculated by Maria Barbara Levy from Brazilian sources, see Stone (1968: 319), and the tables following Levy's chapter in this volume.

4 Feis's figures were explicitly based on Sir George Paish's pre-World War I estimates, with some minor modifications which did not affect the figures for Latin America.

5 Stone, in his textual comments, implied that this was an upper-bound estimate. Later critics have not always recognised his own reservations about the statistics.

securities in London between 1865 and 1913. Of a total of £ 623.4 million for total capital calls for South America, government bonds accounted for no more than £ 223.4 million (Davis and Huttenback 1986: 67).[6]

This process of quantification came under a series of attacks from D. C. M. Platt (1980: 1-16), who argued that the global estimates for British portfolio investment in 1870 should be revised downwards to about half of the conventional figure of £ 1 billion, partly on the grounds that continental European investors had acquired many of the bonds issued or quoted in London. Platt's concern here was principally with loans to continental Europe and the United States, but his strictures had implications for Latin American specialists in that he questioned the assumption that British investors had purchased even the greater part of bonds issued in London, and he also included a few Latin American cases among the examples he quoted in support of his argument.

Platt then began to focus his investigations on the period between 1870 and World War I. In 1986 he published a vehement critique of the Paish-Feis figures, which included some questioning of their assumptions about Latin America, and in a few words he also dismissed Rippy's and Stone's estimates as totally unreliable. Platt claimed to have discovered evidence for substantial European purchases of the Latin American government bonds issued in London. He also highlighted many of the other difficulties which historians had quietly ignored: the problem of attributing ownership of those government loans which had been issued jointly in several financial centres including London; the problem of quantifying flows of capital and distinguishing them from the stock of British assets; and the problem

6 A "partial" issue was one which was made in other capital markets like Paris, Amsterdam, Berlin, or New York, simultaneously with London. The figures given by Davis and Huttenback are not disaggregated in a form which Latinamericanists can easily use, since they incorporate Mexico and Central America into figures for North America. Moreover, they make a number of questionable judgments and factual errors about Latin America, which reduces one's confidence in their procedures: for some of the errors see Davis and Huttenback (1986: 28-29, 60, 105, 111-114, 167, 264, 311, 361).

of taking account of amortisation payments and the repatriation of securities to Latin America in arriving at a figure for British investment in Latin American government bonds (Platt 1986: 17, 33-34, 37-40, 44-47, 91-92, 96, 100-105). Platt's critiques have thrown estimates of British holdings of Latin American public debt before 1913 into turmoil, and underlined the need for a new and much more careful statistical reconstruction. However, the debate has also highlighted several points about the London capital market which are of importance to historians of Latin American public debt.

Without doubt there is a major problem in calculating the figures for total new issues because of the need to find some way to treat bonds which were issued simultaneously in London and other financial centres. Platt makes much of this point, but by choosing examples at random from the financial press in order to question the assumptions of earlier writers. The result is that his work undermines confidence in estimates like Stone's without replacing them. In the absence of a methodical reading of the financial press in the half-century before World War I, it is difficult for us to judge the relative importance of different European and North American capital markets for individual Latin American countries at different times. The secondary literature on Latin American economic history is rather unsatisfactory in this respect because much of the evidence is contradictory. An example cited by Platt is the Mexican "imperial" loan of 1864 for £ 12,365,000, £ 8 million of which Jenks ascribes to London. In fact, according to Platt, who discovered the evidence in the Baring archives, the issue was a failure in London, and the City subscribed only about half a million pounds (Platt 1984: 58; Jenks 1927: 422). In other cases historians' assumptions about the importance of London for a particular issue disagree with more detailed evidence in the contemporary press. Thomas Holloway (1975: 67-68) describes the well-known São Paulo coffee valorisation loan of 1908 of £ 15 million as being taken principally by J. Henry Schroder of London (£ 10 million, of which £ 2 million was subcontracted to the National City

Bank of New York), together with Paris financiers (£ 5 million). However, the *Economist*, commenting on the loan at the time, believed that of the £ 10 million handled by Schroder, only £ 5 million was to be placed in London, with the remainder being subcontracted to financiers in New York (£ 2 million), Berlin (£ 2 million), and Antwerp (£ 1 million).[7] These two examples illustrate the need for a reconsideration of the evidence on each loan issue, particularly as they refer to two of the best-known. As things stand at the moment, the question of attributing ownership of partial issues is largely guesswork, but any simple listing of the new loans quoted on the Stock Exchange would clearly tend to overestimate the interest of the City of London, at least for the period before 1914.

However, the total of new issues is only one guide to the level of British investment in Latin American public debt. In effect historians need to differentiate more clearly among three separate calculations (in descending order of magnitude): the total value of Latin American government bonds issued in London over a set period; the outstanding principal of these loans at particular dates; and the total value of Latin American government bonds held by British subjects. It would also be useful to calculate the actual flow of British capital to Latin America (and the return flow of interest and amortisation is also important for some debates). As already noted, the practice of issuing a loan simultaneously in two or more European financial centres makes the calculation of total new issues problematic. To move from this to the outstanding principal of these loans at a particular date means taking into account conversion and amortisation operations, details of which are not always clear.[8]

7 *Economist* (London, 12 December 1908), p. 1106.

8 For the late nineteenth and early twentieth centuries it ought to be possible to obtain much more information about amortisation (and interest) payments from Latin American official publications such as the *memorias* of Finance Ministers. The problem, reflected in this chapter, is that research on Latin American public debt in Britain has tended to see it as a sub-issue of the problem of estimating and explaining British overseas investments and financial flows in the century before World War I, and no historian participating in the debate has really consulted Latin American sources. The papers in this volume by Roberto Cortés Conde and Maria Barbara Levy illustrate the potential both of these sources and of computer spreadsheet analysis.

To calculate from this the value of Latin American government securities held by the British creates a further problem: that of establishing some idea (complete accuracy is impossible) of the changing ownership of the loans once they were floated.

Most government bonds were "bearer" bonds. Unlike company stocks and debentures, there are no registers of bondholders from which historians might reconstruct patterns of ownership. It is clear, however, that quite considerable international transfers of bonds did occur in the half-century before World War I. At present, the main sources of information are inferences in the financial press, guesses by statisticians such as Sir George Paish before World War I and Lord Kindersley afterwards, and occasional references which historians have discovered in merchant bank archives, but as yet no historian has attempted any kind of systematic trawl through these sources in order to accumulate evidence methodically. A few examples will illustrate the extent of international transfers and the problems of tracking them. By the second half of the nineteenth century Mexicans had apparently acquired substantial holdings of the country's external debt (Bazant 1968: 125; Platt 1984: 56).[9] In 1888-89 German banks undertook the conversion of the Argentine government debt, with minority participation from Barings and Murrieta in London. Fairly soon after, for reasons which are not entirely clear (official discouragement of overseas loans or changes in German investors' perceptions of Argentina are two suggestions), the Germans appear to have sold a considerable quantity of Argentine securities to British investors (Cuccorese 1977: 311; Kindleberger 1984: 258-259). The Peruvian bonds of 1870 and 1872, which had initially attracted substantial French interest, had come to rest primarily in British hands by 1889 when the Grace Contract settled the Lima government's outstanding debt (Platt 1980: 6; Miller 1976: 82). Subsequently the stocks and bonds of the Peruvian Corporation, which the London financial press continued to regard as a quasi-governmen-

9 See also the paper by Carlos Marichal in this volume.

tal liability, attracted investors from France, Germany, the Netherlands and the United States.[10] A further, and probably completely insoluble, difficulty with international transfers is that by the time of World War I some British owners of Latin American government bonds were depositing their holdings in banks abroad in order to avoid income tax in the United Kingdom.[11]

If such transfers create enormous problems for the pre-1914 period, they make analysis of the inter-war years even more difficult. The Royal Institute of International Affairs published an authoritative survey of foreign investment in 1937 which noted on one page that Argentine indebtedness to Britain had increased since World War I, and on another that British investment in Argentina had tended to decline (RIIA 1937: 145, 270-271). The amortisation, conversion, and repatriation of earlier debts probably diminished the sterling-denominated liabilities of many Latin American governments to Britain.[12] However, British investors purchased substantial quantities of the dollar bonds issued in New York at the times when official regulation had closed the London capital market to issues of sterling securities for Latin American governments (Atkin 1970: 334; Moggridge 1971: 126; D'Abernon Mission 1930: 14-15; RIIA 1937: 164).

The assumption, therefore, which historians, particularly non-specialists, can easily make – that loans issued in sterling were largely purchased and held by British investors, and those in dollars by US investors – is difficult to sustain. The inter-relationships among international capital markets were quite intricate, even in the mid-nineteenth century, and they became yet more complicated thereafter. This also makes the

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10 *Economist* (London, 19 February 1910), p. 409; (27 August 1910), p. 443; Herbert Gibbs to Henry Hucks Gibbs, 26 January 1894, Gibbs archive, file 11040/2, Guildhall Library, London.

11 *Economist*, (London, 17 September 1910), p. 552.

12 One reason why British holdings of the Brazilian federal government's debt remained relatively high is that amortisation payments were suspended for long periods, from 1898 to 1910 and 1914 to 1927 (Fritsch 1988: 34).

calculation of financial flows between Britain and Latin America, as opposed to the estimation of the stock of British holdings of Latin American government debt, extremely difficult.

It is surprising that the debates over dependency and economic imperialism did not stimulate greater efforts to calculate the direction and size of the net transfers between Britain and Latin America, but there seems to have been relatively little quantitative work on this question. It may be possible, however, to make some inferences from work on British investment more generally about the direction of the flows on account of government debt, and their timing. In his reassessment of British overseas investment as a whole, Sidney Pollard (1985: 494) suggests that after 1870 the inflow of repayments to Britain exceeded the outflow of funds to the remainder of the world, except during the peak years of 1885-89 and 1905-13, a topic also studied by Fishlow (1985a: 390-391). This comment has a twofold implication for analysis of Latin American public debt. First, except in the boom years when new capital did become available, the net transfer on account of government debt was normally from Latin America to Britain. A proper estimate would have to take account of periods of default on interest payments and the suspension of amortisation, but since the significant defaults decreased as certain borrowers became favoured and renegotiation of debts became more common, the periodisation suggested by Pollard for British investment overall would probably fit the particular case of Latin American public debt. Second, if we accept that Stone's estimates provide an approximation for the relative importance of different countries, if not for the absolute values of outstanding debt, it can be argued that once British investors began to receive repayments of interest and amortisation on the poorer countries' debts they tended indirectly to recycle them towards Argentina and Brazil.[13] This raises questions about institutional changes

13 To put it slightly differently, if one were to estimate net transfers on account of government debt between Britain and the individual Latin American countries, one would expect the flows to be more frequently in favour of Argentina or Brazil than they would be for other countries.

and investor perceptions in the London capital market, on which the recent research has uncovered some useful qualitative evidence.

2. Institutional Changes

One of the most significant contributions of Stanley Chapman's work on merchant banks has been to emphasise that issuing loans on behalf of Latin American (or other) governments was only one aspect of their business, and generally not a particularly important one. For long periods of the nineteenth century trading on their own account, together with the acceptance of bills of exchange, were the basic functions of the merchant banks. As trade became more competitive and margins declined in the second half of the century some leading houses like Barings shifted more resources into loan issues. Nevertheless, the basis of their income continued to lie in their role as accepting houses (Chapman 1984: 32-33, 82-83).

There was a considerable institutional turnover in merchant banking. Rothschild and Barings, both of which had come to prominence during the Anglo-French wars, were exceptional in their longevity. Until late in the century the careers of the merchant banks involved in the Latin American loan business, especially those acting for the smaller countries, tended to be ephemeral. Several of the issuing houses which Jenks lists as leaders in government loans in the third quarter of the century had disappeared shortly afterwards, even before the Baring Crisis hit the survivors (Jenks 1927: 421-424). While Barings, who had seriously mismanaged their acceptance and loan business, were themselves rescued by a committee of bankers, the smaller houses involved with Latin America suffered greatly in 1890. The Anglo-Spanish house of Murrieta collapsed, while the loss of confidence crippled Morton Rose: both these houses had been heavily involved with Argentina. Antony Gibbs and

Sons, whose interests by then lay primarily in Chile, Mexico, and Argentina, also appear to have sailed very close to the edge (Chapman 1984: 80-81; 1985: 237). This was the last great shake-out of the merchant banking sector. Henceforth Latin American issues in London were dominated by Rothschild and Baring and other international houses like Morgan, Schroder, Speyer, Seligman, Kleinwort, and Lazard, which had begun to challenge the older firms from the 1870s.

For Latin American governments the development of these firms, which possessed stronger resources, better reputations, and greater international connexions than those on whom they had depended in the mid-nineteenth century, had important benefits. The techniques used to issue loans also improved, partly as a result of the 1890 crisis. Many of Barings' problems in Argentina, in Chapman's view, had stemmed from their selfishness in attempting to monopolise concessions (Chapman 1984: 77-78). They had therefore not formed syndicates to take up some of their new issues, a practice which had actually become well-established by the late 1880s as a consequence of pressure from US-connected houses like Morgan.[14] Nor had they sought underwriters for certain flotations, presumably to save commissions. This left them with large quantities of unsaleable Argentine securities on their books. After 1890 no merchant bank, especially with an increasingly critical financial press anxious to examine all aspects of an issue, could have followed such a path. Thus both syndication and underwriting, as well as the practice of dividing loan issues among several European centres and New York, trends which were evident before the

14 Barings had actually led the £ 5.3 million refinancing loan to the Argentine government in 1887 on their own, having shared the larger loan of 1886 with J. S. Morgan in London and three banks in Paris (Marichal 1989: 247). The chief cause of Barings' Argentine failures, however, was the flotation of the Buenos Aires Water Supply and Drainage Company which they had purchased from the government. It was the desire to keep this to themselves which Chapman really criticises, for the issue failed. Ziegler (1988) was the first person to obtain access to Barings' private correspondence in the months preceding the crisis. While reproducing some telling comments about their ignorance of the true nature of their business in the Plate, he made little of it himself.

crisis, had become standard by World War I. These changes undoubtedly helped to spread the risks on individual issues and aided their flotation, thereby increasing the ability of merchant banks to mobilise funds for Latin American governments.

Governments' negotiating positions also tended to improve as a consequence. Those not in default could negotiate terms with a number of banks in different markets. The beginnings of such a strategy can be seen in the 1880s, when the Argentine national government's decision to float loans in 1881 and 1884 using Paris banks as the "lead" institutions had a pronounced effect on Barings' eagerness to regain their position as Argentina's sole financial agents in Europe. Barings' refusal to take the 1884 loan on the terms offered by President Roca had opened the way for J. S. Morgan and the Crédit Industriel (Ziegler 1988: 236-237; Burk 1989: 47). Later in the decade both the Mexican and the Chilean governments negotiated loans through Berlin finance houses rather than with British merchant banks (Marichal 1989: 249).

This option became more pronounced during the lending boom which preceded World War I. Argentina, for example, deliberately attempted to tap US resources in 1908 and was able subsequently to float substantial loans in 1909 and 1911 with only minority participation from Britain (Burk 1989: 55-56; Platt 1985: 83).[15] Chile, too, was able to avoid the more conservative attitudes of Rothschild, its traditional bankers, both in 1906, when it employed the Deutsche Bank to handle a loan, and in 1913-14, when it took its business to the London house of Morgan Grenfell (Ziegler 1988: 303; Monteon 1982: 112-113). Another good example is that of coffee valorisation, of which

15 Whether this was wholly successful is doubtful. Ziegler claims that Barings' informal pressure on other institutions in Paris and London helped to make the 1911 loan a relative failure. Barings privately expressed the wish to demonstrate to the Argentine government "the necessity of dealing with first-class banking houses" [i.e. themselves!] (Ziegler 1988: 310). On the other hand the Argentine desire to obtain money in New York also seems to have permitted the London associates of J. P. Morgan, J. S. Morgan & Co (after 1909 Morgan Grenfell), to negotiate equality with Barings in Argentina's London issues following an acrimonious dispute in 1908-09 (Burk 1989: 56-57).

Rothschild, the Brazilian government's traditional financial advisers and agents, strongly disapproved. The state of São Paulo, supported by a federal government guarantee, was able to obtain financial backing for coffee valorisation from other European bankers including J. Henry Schroder of London, albeit at a price which many have considered excessive because it surrendered its control over coffee stocks to a committee of bankers and merchants (Holloway 1975: 56-61, 66-68). Furthermore, the success of valorisation permitted the state to raise new loans through Schroder in 1913 (£ 7.5 million) and 1914 (£ 4.2 million), in order to refinance its public debt (Holloway 1975: 74). After World War I, when the opposition both of the US authorities (on antitrust grounds) and of Rothschild restricted Brazilian access to funds, the São Paulo Coffee Institute was still able to float a loan of £ 10 million through Lazard in London in 1926 (Fritsch 1988: 128).

Again, though, it must be emphasised that there has not been very much research on the extent to which competition among different capital markets and merchant banks benefited governments. One can point to the trend, but it is much more difficult to evaluate its significance with any precision. It was certainly mitigated by the reluctance of certain banks to poach on each other's preserves, partly because they depended on each other for successful syndication of loans. Thus Barings refused to take part in business in Brazil and Chile without the agreement of Rothschild, or in Mexico without the involvement of Morgans. Barings also kept Speyer out of Argentina, when that house was expanding aggressively in the early 1900s, with a promise not to encroach on "their" territory in Mexico and Cuba (Ziegler 1988: 303-304).

A further result of the greater stability of the market, the growing knowledge and confidence which British investors showed about Latin America, and the wider availability of funds, was the increasing appearance of loans issued by state and municipal governments, as opposed to the national authorities. There are few examples before the 1880s: Marichal lists four Argentine provincial loans, two for Buenos Aires and one each for Entre Ríos and Santa Fe between 1870 and 1874. These amounted to a nominal total of about £ 5.6 million (Marichal 1989: 243; Ferns 1961: 339). Ten Argentine provinces and five cities floated loans in Europe during the investment boom of the late 1880s. Of the nominal total of £ 38.8 million, London houses, headed by Murrieta and Morton Rose, took the lead in £ 24.4 million and shared it in a further £ 4.3 million (Marichal 1989: 247-248; Cuccorese 1977: 283-284). The only other examples of state or municipal borrowing in London at this time were loans in 1888-89 for the state of São Paulo and the cities of Rio de Janeiro and Santos, the city of Montevideo, and, riding on the back of the successful conversion of the Mexican national debt, the state of San Luis Potosí and the municipal authorities of Mexico City. These came to a nominal total of £ 5.6 million (Marichal 1989: 247-289). The real boom in Latin American state and municipal securities, however, occurred in the decade of cheap money before World War I when local authorities, especially in Argentina, Brazil, and Mexico, benefited from the availability of funds and the reputation and creditworthiness of their national governments. Amongst the loans floated in London in 1910, for example, were issues for the province of Buenos Aires, the province of Corrientes, the city of Santos, the city of Pernambuco, and the city of Oaxaca.[16] As with loans for national governments New York dominated this market in the 1920s, but London houses still led loans for the states of Minas Gerais, Paraná, Rio de Janeiro, and São Paulo, and the cities of Niterói and Santos (Marichal 1989: 251-253).

There are two other grey areas regarding Latin American public debt and the London capital market in the late nineteenth and early twentieth centuries which require more attention. One is the converse of the point which has already been made about Latin Americans purchasing their own govern-

16 Reports of new issues in *Economist* (London, 15 January 1910), p. 131; 1 October 1910, p. 663; 9 April 1910, p. 787; 28 May 1910, p. 1196; 23 July 1910, p. 171.

ment's external bonds, namely British holdings of Latin American internal debt. A priori reasoning would lead one to expect investors to have concentrated on the most credit-worthy countries and for this type of investment to have become more common in the years immediately preceding World War I, but at present there is neither the quantitative nor qualitative evidence to prove this. Frank Colson reports examples of Brazilian internal loans floated in the Rio market but intended primarily for sale abroad in the final years of the Empire (Colson 1983: 404-408). In the 1890s, despite the depreciation of silver, large quantities of Mexican internal bonds also apparently circulated in Europe (Bazant 1968: 147).[17] J. H. Williams (1920: 152, 191) estimated that 90 percent of the internal loans raised by the Argentine government between 1895 and 1900 were held abroad. The adherence of many countries to the Gold Standard ought to have increased the attractiveness of Latin American internal bonds in the decade before 1914, especially since they were frequently denominated in sterling or gold. For example, the *Economist*'s list of new issues in 1910 included an Argentine internal loan of £ 1,209,600 at 5 percent, the bonds being denominated in gold pesos and with interest payable in London, Paris, and Berlin as well as Buenos Aires.[18] However, this whole question of British investment in the internal debt of Latin American nations is yet another question which awaits more detailed research in the financial press, business archives, and probate records.

The second area which is almost totally obscure, largely because it was only rarely mentioned in the financial press and very few of those who have researched in merchant bank archives have given it much attention, is the extent to which Lat-

17 See also the paper by Carlos Marichal in this volume.

18 *Economist* (London, 10 September 1910), p. 521. A further attraction for investors was that the loan could not be redeemed before 1915, thus guaranteeing, at least for five years, the maintenance of a relatively high interest rate for investors in a country with a high credit rating. Three months previously, the *Economist* had criticised the Argentine government's failure to convert much of its old debt as interest rates fell. *Economist* (London, 16 July 1910), p. 109.

in American governments were able to raise funds from London merchant banks against one- or two-year bills, in a temporary crisis, for example, or when the investment climate was not favourable for a new issue but likely to improve in the near future. Some examples do appear in the literature. The short-term loan which Barings provided for the Argentine government to meet interest payments on the public debt in 1876 may have taken this form (Ferns 1960: 380). Two years previously they had made Peru a similar loan of £ 1 million (Ziegler 1988: 230). Argentina also began to obtain new advances from Barings in 1897, seven years before it raised its first publicly floated loan since the Baring crisis (Williams 1920: 152). The Argentine government apparently also made two issues of one-year 6 percent Treasury bills early in 1914 for a total of £ 13 million (Albert 1988: 149). In Brazil one purpose of the São Paulo loan of 1908 was to pay the short-term Treasury bonds which had been used to finance coffee valorisation and which London interests reputedly held in large quantities.[19] Short-term funding of this kind remained a feature of valorisation in the 1920s. Lazard lent São Paulo £ 5 million for one year in 1927 to finance coffee stocks. As conditions tightened, however, they found it impossible to remain in the game. São Paulo was able to raise a further short-term loan of £ 2 million from Schroder, Rothschild and Baring in November 1929, but on condition that it abandoned the permanent defence of coffee (Fritsch 1988: 130, 154-155).

These examples, however, probably represent little more than the tip of the iceberg. Historians need more information about the scale, frequency, and implications of such arrangements with foreign merchant banks. Did the occasional need for this type of finance, for example, provide a government with an incentive to maintain good relations with a particular house? Was it a means by which a more aggressive merchant bank might

19 *Economist* (London, 12 December 1908), p. 1106. According to Thomas Holloway (1975) the initial finance for coffee valorisation came from £ 1 million of one-year Treasury bonds issued in August 1906 through the Diskonto Gesellschaft.

break into a longstanding relationship between a government and an older house? Did the City of London make any use of arrangements like these during the 1920s when for long periods the public flotation of large loans on the Stock Exchange was either restricted through formal regulations and informal advice or impossible because of market conditions? If it did so, was this a deliberate means of trying to maintain influence with certain Latin American countries at a time when New York had become a more favourable place for the issue of long-term loans?

3. The Motivations for Investment in Government Bonds

Normally the motivations for British investment overseas are discussed in terms of the higher returns available at times when opportunities for domestic investment were limited. During certain periods, however, purchasers took much less care in calculating the trade-off between risk and return, and investment became much more irrational. M.G. Mulhall, writing in 1877, shortly after a wave of Latin American defaults which culminated with Peru, noted that "most of the debts of insolvent republics in South America [were] only interesting as documentary proof of the extent of human credulity" (Mulhall 1877: 545). Charles Kindleberger (1984: 261) has also commented that "nineteenth-century investors seem to have been unusually naive in swallowing propaganda put out by venal journalists, interested bankers, and devious foreign offices, and especially in thinking that foreign bonds were more like bonds than they were foreign, and hence were safe". He also notes that a distinction should be drawn between investing for speculative reasons and for income (Kindleberger 1984: 260). The work of econometric historians like Ford (1971) or Edelstein (1982) has certainly shed considerable light on the reasons for the timing of investment booms, and relative yields on domestic and foreign bonds. Much less is known, however, about the identity of investors in Latin American government bonds and their motivations. Were they small investors, speculators, major financiers, financial trusts, or insurance companies, for example? However, the expectations and perceptions of specific groups of investors certainly affected Latin American governments' operations in the capital market, and the more quantitative analyses tend to gloss over them. To take the analysis further, it may be worth distinguishing three different means of obtaining returns from Latin American government bonds: the profits from promotion, capital gains, and interest payments.

The disparities between the money received by governments and the total amounts subscribed by investors in the period of independence is well documented, the difference being pocketed by the promoters of the loans or returned to investors in the form of a few interest payments before default occurred. For many republics (and many small investors) matters did not improve until late in the century. An excellent description of the means by which unscrupulous loan contractors could hoodwink the governments and the small investor appears in the report of the House of Commons Select Committee of 1875, which paid particular attention to the loans recently made to Santo Domingo, Costa Rica, and Honduras. Honduras, the committee noted, had incurred a nominal debt of £ 6 million, in return for which it had acquired a now abandoned stretch of railway 53 miles long, for which the contractors had been paid £ 689,745.[20] Other scandals from this period include the loans for Paraguay, Bolivia, and Peru.

A distinction, however, was beginning to appear between the smaller countries, which had great difficulty in controlling both their own agents and their loan contractors, and the larger and more stable countries like Argentina, Chile, and Brazil, which were much better informed and possessed much better credit. In Carlos Marichal's words: "The London and Paris financiers exercised greater prudence with their larger, more stable clients, who provided them with profits and remittances on a re-

20 "Report of the Select Committee on Loans to Foreign States", PP, 1875, XI, pp. VIII-XLVIII.

gular basis. In contrast, the weaker countries were fair game for all kinds of speculators, whether established or newcomers, because the benefits to be reaped were expected to be extremely short-lived" (Marichal 1989: 119). Barings' intervention in the market on behalf of Argentina or Rothschilds' in favour of Brazil, while netting the houses substantial profits and commissions, had as their purpose the maintenance of the credit of these countries, as did the provision of short-term loans to meet interest payments during a trade recession.

After the mania of the 1870s, which culminated in a wave of defaults, abuses on the scale uncovered by the 1875 Select Committee seem to have almost disappeared from the London market for government loans. This happened for various reasons. Once the weaker governments, who were less likely to be able to control their agents and also sustain the revenues needed to service the loans, had ceased to pay interest, they were unable to come to the market again. In some cases their absence lasted many years. The Peruvian government did not float another loan in London until 1922. Moreover, the attention of the wheeler-dealers in London whose "expertise" lay in Latin America turned to company promotion. While not denying the significance of speculation in government securities in helping to precipitate the Baring Crisis, the new feature of the boom of the 1880s lay in the flotation of large numbers of companies to acquire and operate concessions in Latin America, such as railways, public utilities and nitrate *oficinas*. While merchant banks like Barings, Rothschild, Antony Gibbs and Sons, and Glyn Mills were involved – it is telling that the issue which lay at the root of Barings' problems in Argentina was a public utility concession – the characteristic figures of the boom were perhaps men like Michael Grace and Thomas North, who, while they certainly had speculative interests in arranging defaulted debts, were not involved in the promotion of new government loans, and much more concerned with the flotation of new companies.

With no government supervision of the Stock Exchange, and no loan scandals to precipitate official enquiries after the mid-1870s, little is known about the profits which merchant banks, whether leading or subsidiary members of syndicates, or underwriters, received from their operations on behalf of Latin American governments later in the century. More research in merchant bank archives, however, might find some evidence for some of the following prima facie hypotheses. Over time the level of commissions and fees ought to have decreased, as competition for governments' business grew. Merchant banks certainly increased their income from the government loan business, but more perhaps as a result of the greater volume of borrowing, and their roles as purchasing and financial agents for governments. This argument is speculative, however, and it needs some research in private archives to ascertain its validity. There is also very little published information on the rewards which merchant banks received from the conversion and funding operations which they carried out on behalf of Latin American governments. In the case of Brazil's well-known funding loan of 1898, the *Economist*, admittedly a partisan observer when it came to discussing foreign loans, commented: "Whatever sacrifices these schemes inevitably involve upon the creditors of foreign states, they provide handsome commissions for the loan agents and the syndicates which are always ready enough to undertake business of this kind.... The 'insiders' make large profits by so manipulating the market that they are able to pass on securities to the public at more or less inflated prices, so that they have everything to gain."[21] However credible this criticism may sound, there is a distinct lack of specific information on this subject for this period.

For the bulk of investors, whether institutions or individuals, Latin American governments' bonds became much more clearly distinguishable at the very end of the nineteenth century into those held primarily for capital gains and speculative purposes, and those held for the reliable income they provided.

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21 *Economist* (London, 4 June 1898), p. 837.

Brazilian bonds had probably fallen into the latter category for much of the century, despite the disappointments suffered by investors in 1898. Argentine, Chilean, Uruguayan, and, late in the century, Mexican bonds gradually joined them. All loans in default, of course, fell into the former group, for the purpose of trading in them was essentially to gamble on news reports or, more distantly, the real prospects of a settlement. Since bonds were to "bearer", it is almost impossible to identify those who bought and sold defaulted Latin American bonds for capital gain, as no lists of bondholders have come to light.[22] The financial press also regarded some of the provincial loans as highly speculative, though whether the private investor could distinguish as clearly as the *Economist* between Buenos Aires and Corrientes, for example, is less certain.[23] To the extent that one can use the opinions of the financial press as an approximation for investor perceptions, however, the ability to differentiate between speculative issues and those which would provide a reliable income on the basis of good security does appear to have become much more marked by the time of the boom which preceded World War I. Rather than worrying about the nature of the hypothecated property which would serve as security, the press began to look much more closely at quantitative indicators like exports or government income and expenditure over a few years, and to analyse in greater detail Latin American countries' official publications.[24] By then, too, the better

22 Very little work has been done even on the shareholding registers which are available in order to identify investors in companies operating in Latin America, with the exception of Charles Jones on Argentina and Uruguay (Jones 1982). I confess that I have never tried to work on the shareholding registers for the Peruvian Corporation, the case I know best, to determine by inference who had been accumulating Peruvian bonds and in what quantities in the run-up to the Grace Contract of 1889. It may also be possible to gain information about Grace's own stock market speculations from the archive of W. R. Grace and Co. in Columbia University, New York.

23 The *Economist* (London, 1 October 1910) commented on the Province of Corrientes 6 percent Loan of 1910: "The issue does not appear to have been authorised by the Argentine Government, and the price at which the issuing house obtained the bonds they now offer is not stated. The yield of a trifle over 6 per cent is none too high considering the risks."

24 This is a somewhat impressionistic comment based on my reading of the *Economist*'s financial reporting.

known countries' loans had become an attractive investment because of their yields and their lower dealing costs compared with company securities.[25]

The argument, then, is that a significant change occurred in the London capital market regarding Latin American government bonds between the time of the Select Committee Report of 1875 and the first decade of the twentieth century, as investors acquired a much greater capacity to discriminate among different loan issues, holding them for speculative and income purposes accordingly. This favoured a handful of Latin American countries like Argentina, Brazil, Chile, and Mexico, which found the cost of raising funds diminishing as a result. It also had spinoffs both for the local authorities in those countries and for companies operating there. Moreover, both the national governments and the merchant banks concerned had great incentives to avoid a complete default if the financial position deteriorated, as the arrangements made by Argentina and Brazil in the 1890s, and the willingness of both these countries to receive British financial missions in the early 1930s, illustrate. Those left out, and this extended to companies operating in the less favoured countries as well as to the public authorities, found it much more difficult to gain access to London's financial resources on reasonable terms. As a spokesman for the troubled Chimbote Syndicate complained to the Foreign Office in 1910: "Peruvian stocks were not favourably looked upon by the London Financial Houses, and Underwriters, unless such issue was in the form of Bonds, and interest on same guaranteed by the Peruvian government 'backed' by a good and solid tax."[26]

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25 Few have recognised this point, but the *Economist* believed that it made a difference of about 0.75 percent, namely that foreign government bonds yielding 4.75 percent were equivalent to a yield of about 5.5 percent in British-registered companies. *Economist* (London, 8 January 1910), p. 71.

26 Huxley to Norman, 19 September 1910. PRO, FO 371/970/A34235.

4. Concluding Comments

This paper has tried simply to identify some of the grey areas in our knowledge about the relationship between the London capital market and Latin American governments after the middle of the nineteenth century. It is worth drawing out four broad sets of points which arise from the discussion.

First, quantitative estimates of Latin American governments' foreign debts are in disarray. Even at the most minor level evidence about the date, amount, price, and interest rate of specific loans is frequently contradictory.[27] Once problems like partial issues, undersubscribed loans, and the distinction between total nominal assets and the flow of capital are taken into account, none of the major estimates for British investment in the region appear particularly satisfactory or trustworthy, whether those of Feis based on Paish's prewar work, those of Rippy based on the statistics in the *South American Journal*, those of Stone based on Simon's database of new issues, or the more recent upper and lower bound figures of Davis and Huttenback. However, this does not imply that historians should go to the other extreme, a totally nihilistic approach to historical statistics. Rather, a need exists for new quantitative estimates for British investment in individual Latin American countries, using not only the traditional sources like the financial press and other specialist publications, but also the information about specific transactions which should be available in recently released banking archives. Sources like Inland Revenue reports, probate records, and the archives of merchants, insurance companies, and investment trusts in Britain might also provide some data about the trading and ownership of Latin American government bonds.

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27 Compare, for example, Jenks' tabulation of Argentine loans issued in London between 1860 and 1875 with Ferns' discussion of them or Marichal's later tabulation (Jenks 1927: 421-424; Ferns 1960: 339; Marichal 1989: 243). There are also discrepancies between Kathleen Burk's discussion of Morgans' interests in Argentine loans in the 1880s and the listing, based on press sources, which appears in Marichal (Burk 1989: 47-48; Marichal 1989: 247).

Second, historians must distinguish among individual Latin American countries in evaluating their governments' relationships with the London capital market.[28] With the exception of Brazil, British investors were not sufficiently sophisticated, due to lack of knowledge and information, to draw distinctions among different Latin American states until after the defaults which ended the mania of the early 1870s. Until then some gullible investors may have purchased Latin American government bonds in the hope of securing a higher yield than they would obtain in consols or equities. The real income, though, accrued to the promoters and the speculators who traded the securities. Thereafter there was a divergence. Both the governments of the leading countries (Argentina, Brazil, and Chile) and the leading merchant banks had an interest in maintaining a country's credit and avoiding default. Temporary difficulties could be overcome by a suspension of amortisation payments and the funding or reduction of interest payments. This helped to sustain prices and made the bonds more attractive to investors concerned with income rather than capital gains. It also had spinoffs for provincial and municipal governments in those countries, for companies operating there, and even for some Latin American entrepreneurs seeking additional finance, since it made the City of London much more accessible to them. However, the bonds of other countries – the Central American republics, Venezuela, Colombia, and Ecuador, and Peruvian Corporation stock, which the London capital market continued to regard as a quasi-governmental obligation – remained largely speculative investments.

The attitudes of Latin American governments towards the London capital market probably also became more sophisticated, as their credit improved and the competition from continental Europe and the United States for their business increased. Some succeeded in largely ignoring London as the *primary* source of funds, although the City's issuing houses frequently took up a minority participation in their loans: Mex-

28 This is a central point of Carlos Marichal's excellent book, and one with which I totally concur (Marichal 1989: 9-10).

ico is the best example. After World War I both Argentina and Chile, which had possessed high reputations in London before 1914, were able to turn primarily to New York, where interest rates were lower and the market more open. British investors, though, purchased dollar-denominated securities, especially for Argentina, in considerable quantities. Brazil remained more dependent on London, because the valorisation of coffee ran into antitrust problems in the United States. Brazilian liabilities to London also remained relatively high because amortisation on the government debt was suspended between 1914 and 1927. However, despite a decade of relative neglect, after the Wall Street Crash Argentina was able to turn to the London market for limited amounts of capital on the basis of its continued high reputation and its importance to Britain.[29]

Finally, as these examples imply, the changes in the relationship between Latin American governments and the City cannot be considered in isolation from developments in other European financial centres and New York and the growth of domestic capital markets within Latin America. One area of research which would be difficult, but which would shed considerable light on the history of international finance, would be a more methodical attempt to track the transfer of bonds across frontiers, and in particular the extent to which British investors held the internal loans of Latin American states and Latin American investors purchased their own countries' external bonds. A more careful study of the weekly market reports in the financial press, which frequently suggested the source of buying or selling pressure, would at least provide more evidence on this topic than exists at the moment. It is an important question, for the transfer of bonds to other countries might have considerable implications for policy-making. It has been claimed, after all, that one reason why Argentina, alone of the major Latin American countries, did not default on its external debt in the early 1930s was that Argentine citizens held so much of it (Díaz Alejandro 1984: 27).

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29 These factors had important consequences for British policy towards Argentina and Brazil in the 1930s, see Abreu (1984; 1985a).